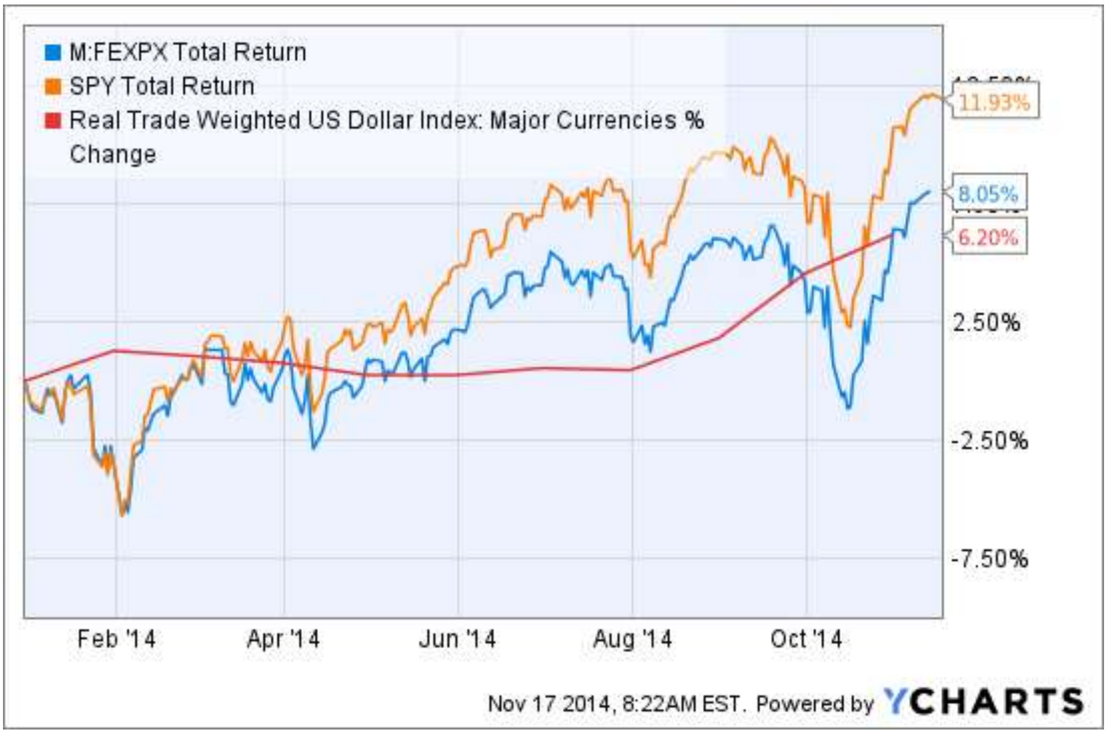
Stocks' Foreign Exposure: Winners and Losers

The first signs are in that U.S. based global behemoths such as Apple (AAPL) and General Electric (GE) could be facing a significant headwind in 2015. While the U.S. economy is one of the few bright spots on the global stage, weaker growth abroad and the suddenly rising dollar are beginning to show up as slower earnings and revenue growth for companies with significant foreign operations.

FactSet reports that in the third quarter, S&P 500 companies with at least 50% of revenue coming from outside the U.S. registered earnings growth of 6.5% and revenue growth of 1.6%. For U.S. companies generating the majority of revenue domestically earnings growth was 9% and revenue growth 5.1%.

As seen in this chart, the Fidelity Export and Multinational mutual fund (M:FEXPX) has indeed had a tougher go this year than the benchmark S&P 500.



FEXPX Total Return Price data by YCharts

Due to lax reporting requirements, foreign reporting data is spotty. Some S&P 500 firms go into great detail. Others are tight lipped. S&P Dow Jones Indices works with what is available: Foreign sales data among those companies that deign to share. Among those that break out foreign sales, sales generated outside the U.S. accounted for 42% of total sales. That's down from near 48% in 2008.

Using the YCharts Stock Screener, listing the S&P 500 for foreign sales and total revenue – again, some data is missing – is a start for those interested in measuring overseas exposure.

The tech sector has the broadest foreign exposure, with almost 57% of 2013 sales coming from foreign markets. (That's of the tech firms that provide geographic breakouts.)

While Apple has been on a tear with the successful launch of the iPhone 6, investors expecting a long runway in 2015 should be mindful that more than 60% of Apple sales in 2013 came outside the U.S. At the start of the year Apple's sub 14 PE ratio spelled opportunity for the value minded. Now with that PE ratio close to 18 you can't play the valuation card. If, in fact, the new product momentum can't overcome slowing global growth and continued dollar strength, it's not a stretch to think Apple stock in 2015 will not be in a position to deliver outsize gains as it has during the rebound of 2014 in which trailing EPS has grown 11% and revenue advanced at half that pace.

AAPL data by YCharts

At the other end of the foreign exposure spectrum is Wal-Mart (WMT). According to S&P Dow Jones Indices, Wal-Mart's foreign sales were less than 30% of its total 2013 haul. And as Wal-Mart just reported, a stronger dollar -- and its role in the massive drop in oil prices -- is beginning to show up at the check out counter. Consumers spending less on gas can fill up their Wal-Mart carts a bit more. Sure, the 0.5% pick-up in same store sales during the third quarter isn't a romp, but it's the first such gain since 2012.

In the third quarter Berkshire Hathaway (BRK.B) boosted its Wal-Mart stake for the fourth consecutive quarter. Over the past four quarters Berkshire has increased its position by more than 20%; Wal-Mart is the fifth largest position in the $107 billion investment portfolio, accounting for more than 4% of total assets.

Unfortunately, the market has already regained some love for Wal-Mart over the past month.

WMT data by YCharts

But it is one stock to keep close tabs on for when the next round of volatility hits. Any pullback could put the stock back at a solid entry-point price. Yes, revenue is a challenge, but any incremental pick up from more flush consumers in 2015 should be a nice and long-awaited tailwind. While free cash flow hasn't increased since the financial crisis, at more than $13 billion it is still mighty impressive.

WMT data by YCharts

And during the past five years of sluggish revenue growth Wal-Mart has managed to increase its dividend payout more than 75%. That growth rate may slow as payout ratios have trended higher:

WMT Payout Ratio (TTM) data by YCharts

But even if you made the highly aggressive assumption that dividend growth could be halved, that would still land you at an annualized rate of 7% or so. That's still solid and more than triple what inflation is running at. Meanwhile, the current 2.3% dividend yield puts you on par with a 10-year Treasury. Wait for a correction to bring the market down a peg or two and that yield will be even sweeter and the valuation for this decidedly domestic behemoth even more attractive.